STATE OF IOWA

DEPARTMENT OF COMMERCE

UTILITIES BOARD

IN RE: IES UTILITIES INC. AND INTERSTATE POWER COMPANY n/k/a INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. TF-03-180 TF-03-181 WRU-03-30-150 (WRU-99-38-150, WRU-99-39-151)

ORDER APPROVING TARIFFS WITH MODIFICATION AND GRANTING WAIVER

(Issued January 20, 2004)

On June 5, 2003, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) proposed tariffs, identified as TF-03-180 and TF-03-181. The two proposed tariffs change the terms under which IPL offers net metering to customers with alternate energy production (AEP) facilities. The two tariffs are nearly identical and apply to different IPL pricing zones. One tariff covers the former IES Utilities Inc. service territory and the other covers the former Interstate Power Company service territory. On the same date, IPL also filed a request for partial waiver of 199 IAC 15.11(5), which deals with net metering, to the extent necessary to implement the proposed tariffs, and a request for a limited extension of the cost recovery waivers for existing net metering customers granted in Docket Nos. WRU-99-38-150 and WRU-99-39-151.

On June 23, 2003, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to IPL's net metering changes. Objections were also filed by Kinze Manufacturing (Kinze) and the Iowa Joint Utility Management Program (IJUMP) on June 25, 2003. The Board suspended and docketed IPL's tariffs for further investigation by order issued July 2, 2003.

IPL responded to Consumer Advocate's objection on July 7, 2003, and to Kinze's and IJUMP's objections on July 9, 2003. On October 23, 2003, Kinze and IJUMP filed notices of their intent not to intervene in any further proceedings involving the proposed tariffs. None of the parties have requested a hearing.

Among other things, IPL proposes a 500 kW capacity limit for net metering and a time-differentiated net metering system for larger facilities between 40 kW and 500 kW. IPL also requests a limited continuation of rule waivers granted in Docket Nos. WRU-99-38-150 and WRU-99-39-151 to ensure continued energy adjustment clause (EAC) recovery for existing net metering contract "costs" until the conclusion of IPL's next rate case. Otherwise, these waivers would be discontinued and, therefore, would not apply to new net metering contracts under the proposed tariffs.

Several of IPL's proposed tariff changes are similar to those approved for MidAmerican Energy Company on March 8, 2002, in Docket No. TF-01-293. For example, IPL proposes a 500 kW capacity limit for net metering and a provision for dual metering that allows IPL to separately monitor and distinguish energy provided by the AEP to IPL from the energy provided by IPL to the AEP. Both of the proposed provisions would require partial waiver of 199 IAC 15.11(5).

However, IPL's proposal is unique because it establishes two separate categories of net metering customers: one category for AEP facilities with a total nameplate capacity of 40 kW or less, and a second category for facilities between 40kW and 500 kW. Facilities in the first category would be treated the same as under MidAmerican's tariff by providing net metering customers the functional equivalent of single-meter net metering at no additional customer expense, with net excess AEP generation carried forward to future billing periods rather than cashed out.

Facilities in the second category would be treated differently. Larger facilities between 40 kW and 500 kW would be net metered according to a time-differentiated system that bifurcates net metering into separate peak and off-peak periods. This would require time-differentiated metering, with net excess AEP generation cashed out separately for each period based on time-differentiated avoided cost rates. This provision would also require partial waiver of 199 IAC 15.11(5).

Kinze and IJUMP oppose a 500 kW capacity limit for net metering. Both entities express an interest in net metering with facilities larger than 500 kW and maintain that IPL has not satisfied the standards for a waiver contained in 199 IAC 1.3.

Consumer Advocate does not oppose the 500 kW limit, but argues it should apply to total capacity rather than facilities, which would match MidAmerican's tariff. Under Consumer Advocate's approach, the net metering limit would apply to the first 500 kW of a customer's total facility capacity. This would allow facilities larger than 500 kW to qualify for net metering for part of their capacity. Consumer Advocate also argued that net metering contracts should be offered for up to 20 years, at the customer's option, and that customers should not pay any additional metering costs. Finally, Consumer Advocate opposes IPL's proposal for time-differentiated, bifurcated net metering for facilities larger than 40 kW, arguing that it conflicts with the basic concept of net metering for relatively small AEP facilities.

IPL agreed with three of Consumer Advocate's proposed modifications. First, IPL agreed to apply the 500 kW limit to capacity, rather than facilities. Second, IPL said it would modify the proposed tariffs to allow net metering contracts for up to 20 years, at the customer's option. Third, IPL said it would not require net metering customers to pay any additional metering costs beyond their standard service rates. IPL did not, however, withdraw its time-differentiated net metering proposal for larger facilities.

In response to Kinze and IJUMP, IPL argued that it had met the requirements of 199 IAC 1.3, specifically stating that lost revenues from new net metering contracts would pose a hardship on IPL shareholders unless net metering capacity was limited to 500 kW or less per customer. IPL is not seeking to apply its previous net metering cost recovery waiver to any new net metering contracts.

IPL claims that its time-differentiated proposal for larger facilities better reflects the economic value of net metered generation to IPL's system and, therefore, provides better incentives for the types of AEP generation that produce the most economic value. However, net metering under 199 IAC 15.11(5) is not founded on the concept of avoided cost, but is essentially a metering arrangement where the customer's AEP kWh production is netted against the customer's retail kWh usage. The Board does not believe that avoided cost principles are relevant to net metering. In fact, by introducing avoided cost principles to net metering, the Board is concerned that IPL's bifurcated proposal may in some specific instances create pricing distortions and penalize customers that generate the most during peak periods, when presumably the energy is needed the most. IPL may offer its bifurcated proposal on an optional basis if it chooses, but the Board will require IPL to offer the functional equivalent of non-time differentiated, single-meter net metering for all AEP facilities, in accordance with 199 IAC 15.11(5).

The Board will approve the tariffs with the 500 kW limit, modified to reflect the agreement with Consumer Advocate on the three issues related to applying the 500 kW limit to capacity, length of contract, and meter costs. The 500 kW limit is consistent with that approved for MidAmerican and places Iowa in a leadership position among those states that require net metering. Requiring a larger limit at this time could expose IPL shareholders to significant costs. As the Board has consistently noted, net metering is most practical for small, not large, customers. The standards for waiver contained in 199 IAC 1.3 have been satisfied and rule 15.11(5) will be waived to the extent necessary to implement these changes. See, MidAmerican Energy Company, "Order Granting Waiver and Approving, With Clarifications, Tariff," Docket Nos. TF-01-293, WRU-02-8-156.

The Board will also require some minor modifications to the proposed tariffs to reflect the final rules that were adopted in Re: Alternate Energy Production, Docket No. RMU-03-4, subsequent to IPL's tariff filing. Compliance tariffs will be required to reflect: 1) the final adoption of IEEE 519-1992 in 199 IAC 15.10(1)"g"; 2) the corresponding deletion of the modification to ANSI C50.10 in 199 IAC 15.10(2); 3) a revised reference to the 2002 National Electrical Code in 199 15.10(1)"e"; and 4) deletion of an outdated notification requirement in 199 IAC 15.10(6).

The remaining issue is continuation of the cost recovery waivers for existing net meter customers. IPL noted that these waivers were granted during the protracted litigation of the Board's net metering rule at both the state and federal level. The waivers were designed to encourage net metering at a time when a court order prevented the Board from enforcing its net metering rule. The waivers allowed IPL to continue to offer net metering during that time. IPL proposes to continue the waiver only for existing customers. In its next electric rate case, IPL states that it intends to propose transferring cost recovery for existing contracts from the EAC to base rates.

Consumer Advocate opposes the waiver extensions, arguing that the waivers were only intended as a temporary solution to encourage net metering pending the outcome of the litigation. Since the litigation has been resolved in the Board's favor, Consumer Advocate argues that the waivers serve no further purpose and should be discontinued.

The waivers in Docket Nos. WRU-99-38-150 and WRU-99-39-151 were granted under special circumstances, during a period when enforcement of the Board's net metering rule was prohibited by state court order. IPL voluntarily agreed to enter into net metering contracts with the assurance of cost recovery granted under the waivers. Since IPL was not required to offer net metering at the time, it could negotiate contract provisions with customers that tied net metering to continued EAC cost recovery. Because the dollar amounts involved are relatively small, the Board does not believe it would be in the best interests of existing net metering customers to deny the waiver and force them to litigate the issue of whether their net metering contracts remain valid. Extension of the cost recovery waivers for existing net metering contracts until the conclusion of IPL's next rate case will ensure uninterrupted net metering for current customers with minimal rate impact on other customers. The issue of the appropriate treatment of these waivers (and the associated contracts) can be considered in the next rate case.

IT IS THEREFORE ORDERED:

1. Interstate Power and Light Company's proposed tariff changes, identified as TF-03-180 and TF-03-181, are approved, subject to the following modifications:

   a. The 500 kW net metering limit is to be applied to AEP capacity rather than facilities, allowing customers to contract a portion of their facilities, up to 500 kW, as net metered AEP facilities;

   b. All net metering customers are to be offered the functional equivalent of non-time differentiated, single-meter net metering for all AEP facilities, including any payment for net excess generation on a non-time differentiated basis;

   c. Customers are to be offered net metering contracts for any term up to 20 years, at the customer's option;

   d. No additional metering costs beyond those covered by the net metering customer's standard customer service charge are to be required; and

   e. IPL shall modify the tariffs to match the final rule changes adopted in Re: Alternate Energy Production, Docket No. RMU-03-4, as described in the body of this order.

2. IPL shall file revised tariffs consistent with this order within 30 days. Compliance tariffs shall not become effective until approved by the Board.

3. IPL may, if it chooses, offer customers in its compliance tariffs the time-differentiated net metering as originally proposed by IPL, but only as an optional alternative.

4. Subrule 199 IAC 15.11(5) is waived to the extent necessary to allow IPL to implement the above tariff changes.

5. The limited waivers granted in Docket Nos. WRU-99-38-150 and WRU-99-39-151, are continued, for existing net metering customers only, until the conclusion of IPL's next electric rate case.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 20th day of January, 2004.